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REVIEW OF THE CHINESE ECONOMIC SITUATION  
FOR JUNE 1948

Central Bank Economic Research Department

## I. COMMODITY PRICES

The most remarkable features of the economic situation in June was the phenomenal rise in prices during the month, particularly in Shanghai, which is referred to as the "June spasm" of price increases.

Fuel was the commodity that showed the greatest rise in price, followed by chemicals and building materials, and for these commodities the rise was from 100 percent to 140 percent above the prices for the preceding month.

For food, textiles, and metals, the rise was less and slower during the month, yet compared with December 1947, the prices for food and clothing had increased 1,000 percent.

This violent upward fluctuation in prices is mainly attributable to the demand for goods created by the great influx into Shanghai of floating capital from areas disturbed by the war. The degree and duration of the rise set a new record. Based on the wholesale price index for the most important commodities computed by the Central Bank for Shanghai, Chungking, and other centers, the wholesale prices in Shanghai for June averaged 80 percent higher than for May, when the increase was only 43.7 percent.

## II. FINANCIAL MARKET

### A. Gold and Silver

There was no change during the month in the official price of gold or the cover rate posted by the Central Bank, but active trading in silver specie led to a rapid rise in silver prices. In the fifth week of June, the price of silver in the open market in terms of yuan increased more than three times that at the end of the fourth week of May.

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At the end of May, one ounce (Shih liang) silver sycee was worth 600,000 yuan. At the end of June, one ounce (Shih liang) silver sycee was worth 2,600,000 yuan.

### B. Foreign Exchange

According to the statement of 3 July 1948 of the Export-Import Control Board the amounts of foreign exchange obtained from exports, and from purchases by appointed banks, from July 1947 through April 1948, were as shown in the following table. It should be noted that the Foreign Exchange Equalization Board was formed in September 1947.

Average for	Obtained Through Exports	Obtained Through Purchases by Appointed Banks
Jul-Aug 48	US \$5,800,000	US \$7,800,000
Sep 47-Feb 48	\$13,000,000	\$16,000,000
Mar-Apr 48	\$ 9,600,000	\$10,300,000
Total	US \$28,400,000	US \$34,100,000

### C. Securities

On 31 May, when orders were issued forbidding the use of checks chiao-chi; this term is general and not explicit as to what kind of negotiable instruments the order applies, the government put treasury notes on sale. During the first week domestic shares started weak but recovered before the end of the week. The price of short-term Class A treasury notes increased from 72.80 to 75.00, Class B notes from 73.50 to 75.75, and the volume of transactions increased day by day. Foreign shares were at first sluggish and later became firm.

By the second week, there was a great influx of funds from outlying regions, making the money market loose and domestic shares reached a series of new highs.

In the third week, because of the violent fluctuation in price of goods, the black market in gold notes soared. Domestic shares again reached new highs.

By the fourth week, because the military situation in Honan became serious, the fluctuation in commodity prices continued. Share prices were steady for Tuesday, Wednesday, and Thursday, but on Friday and Saturday they soared to great heights. Foreign shares also advanced wildly. With the exception of Class C bonds, consolidated bonds did not experience wide fluctuations.

At the beginning of the fifth week, due to the authorities' attempt to curb prices, domestic shares manifested weakness. After three holidays, at the reopening of the market, on Saturday the rise in the prices of all domestic shares was stemmed. Since the Ministry of Finance had telegraphically ordered the cessation of transactions involving foreign shares, all shares dropped in price and the market for foreign shares did not open on Saturday. Consolidated bonds were comparatively inactive during the week.

### D. Interest

At the beginning of the month, since the use of checks had been forbidden, the (money) market at first was tight, but later, because a large amount of banks' orders appeared, and because of a great influx of free money from outlying regions, the money market at once became loose, and continued so to the end of the month. But the end of June is the time for semiannual financial settlements, and since it coincided with the "June spasm" of high prices, a great many people having ready cash preferred to buy and hoard goods rather than let out their money at interest. Thus, on the one hand the need for money increased, and on the other hand there were few lenders, so that the money market tightened again.

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The black-market rate of interest in Shanghai hovered around 0.30 yuan (per yuan per month) at the beginning of the month, dropped to around 0.27 during the middle of the month, and at the end of the month rose to as much as 0.42. The Central Bank's rediscount rate at the beginning was 8.00 yuan (per 1,000 yuan per diem) and did not change throughout the month. As for short-term loans, at the beginning the rate for borrowers was 8.50 yuan, while the Bankers' Association rate charged the money shops 6.50 yuan. This continued until the 29 June when it went up to 9.00 yuan for the former and 7.00 yuan for the latter.

The net clearings of the government banks for the month of June were 14.561 trillion yuan where the deposits exceeded the withdrawals. This was 821.3 billion yuan greater than for the preceding month. The figures for foreign commercial banks were 8.7302 trillion yuan and 3.8746 trillion yuan respectively.

In the case of provincial and municipal banks, and commercial and native banks, the net clearings were 26.1912 trillion yuan, where the withdrawals exceeded the deposits; this figure was 4.6959 trillion larger than for the month of May.

**E. Clearances**

The total number of bills cleared in Shanghai during the month of June was 5,226,081, a decrease of 1,468,628 compared with the preceding month. In terms of value, they amounted to 847,306,632,811,871 yuan which was 115,264,672,604,252 yuan greater than for the preceding month. There were 131,325 bills returned having a value of 7,671,997,467,495 yuan. The number of bills returned was greater than for May by 32,837, but the value of returned bills was 321,806,750,475 yuan less than for May. The number of bills returned was 2.62 percent of the total number of bills cleared; and their value was 0.90 percent of the total value of bills cleared. In other words, one out of every 38 bills was returned and one yuan of every 111 yuan cleared was returned, a much worse record than for May.

**III. PROVISIONAL PROPERTY TAX BILL**

On 8 June, 49 members of the Legislative Yuan led by Liu Pu-t'ung introduced a bill calling for a Provisional Property Tax. It called upon the government to collect a tax on property in order to equalize the distribution of wealth in society and save the dangerous situation that confronts the nation. This was the first session of the Yuan open for regular discussion of bills since its establishment under the newly adopted constitution, and the discussion was unprecedentedly animated. Legislator Liu's remarks included the following points.

Our country has gone through 8 years of war extended by the necessity of suppressing disturbances and rebellions. The distribution of wealth in society is manifestly highly inequitable, even to the point of extremes of riches and poverty as great as the difference between heaven and earth. The result is that the people are divided, government has lost its effectiveness, rebellion is widespread, and unrest and political ferment are rife. When we seek the sources of these conditions, we find them in a number of pernicious circumstances. The positively alarming inflation of our currency is one of these, but what is even more alarming is the fact that a few people taking advantage of inflation are using it to accumulate unlimited wealth. That our annual national expenditures are stupendous need not cause distress; what is distressing is that those who have already amassed wealth bear no burden of responsibility for the country.

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The most necessary and urgent matter that confronts us is that these moneyed men be made to part with their ill-gotten money so as to equalize the distribution of society's wealth, and equalize the privileges that every man may enjoy. Thus, a bloodless economic revolution may be made to obviate a bloody political revolution. The crisis is extremely grave, and does not permit of the least delay. Complacency has become a menace. To delay is fatal. In view of these considerations we propose the adoption forthwith of a bill providing for the imposition of a provisional tax on property and calling upon the government to enforce it.

The bill introduced by Mr Liu and others contained eight chapters embracing 30 articles. Following are a few of the outstanding points of the bill.

The personal property and real estate of all Chinese persons, whether within the country or abroad, and of non-Chinese persons in the country is to be taxable in accordance with the provisions of the bill (Article 2).

The possessor of property is obliged to pay the provisional property tax (Article 5). Taxable property includes:

1. Individual Property

- a. Land and its conjoined features
- b. Buildings and improvements
- c. Securities and deposits
- d. Gold, silver, foreign currencies, jewels and gems, curios, etc.
- e. Automobiles and motorboats
- f. Commodities

2. Corporate Property

The net value of the property of profit-yielding businesses (Article 6)

The property tax is to be levied at a progressive rate. If the property value is above 30 billion yuan a tax will be assessed at a rate beginning at 5 percent of the value in excess of 30 billion yuan up until the property value exceeds 160 billion yuan. Beyond this point the property will be taxed at the rate of a maximum of 60 percent of the excess.

After the introduction of the bill, the members from industrial and commercial circles presented their objections in writing. The Shang-hai Chamber of Commerce and the National Association of Chambers of Commerce and similar groups sent in requests that the bill be held up for further deliberation. The message from the National Association contained the following points:

Members of industrial commercial and other circles have discussed this matter for a number of days. All consider that today's businessmen at the time of the War of Resistance removed to the interior, experiencing the utmost of hardships and suffering immense losses. They have paid taxes and contributed grain. They consider that they have discharged their obligation to the country. Those who remained in the occupied areas suffered the extortions of the enemy and their puppets, and even now are engulfed in a struggle for survival. Since V-J day, soldiers' fires may be seen on every hand and transportation encounters innumerable obstacles. Because of these circumstances, everybody is oppressed, and none are free from imminent peril. At all times we are under well-nigh unendurable burdens. Our business and property is undeveloped and immature, and would certainly be destroyed if the proposed law were put into effect. The bill is still under deliberation.

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**IV. NEW IMPORT-EXPORT CONTROL POLICY**

Mr Huo Pan shu, Chairman of the Import-Export Control Board, on 2 June entertained Chinese and foreign reporters to discuss with them the working of various regulations pertaining to the Foreign Exchange Surrender Certificates Order.

**V. PROHIBITION OF USE OF CHECKS**

Notwithstanding repeated representations by banks, money shops, and commercial bodies concerning the hardship and difficulty of enforcing the order forbidding the use of checks, the authorities (Finance Control Board of the Ministry of Finance) refused to entertain the requests for revocation, and agreed only to a few minor accommodations in special cases. This resulted in a marked reduction in the checks handled in the clearing house and a very great increase in bank drafts and cashiers' checks.

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